

OPEN MEETING

M E M O R A N D U M

TO: THE COMMISSION

FROM: Utilities Division

DATE: April 18, 2023

RE: IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF TUCSON ELECTRIC POWER COMPANY DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA AND FOR RELATED APPROVALS. (DOCKET NO. E-01933A-19-0028)

SUBJECT: REQUEST FOR APPROVAL OF TUCSON ELECTRIC POWER COMPANY'S PPFAC RATE ADJUSTMENT

INTRODUCTION

Enclosed are the Commission Staff's memorandum and proposed order pertaining to the Request for Approval of Tucson Electric Power Company's PPFAC Rate Adjustment (Docket No E-01933A-19-0028). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission may decide to accept, amend or reject Staff's proposed order.

You may file comments to the recommendation(s) of the proposed order by efilings at <https://efiling.azcc.gov/> or filing an original and the appropriate number of copies in accordance with the Filing Requirements available at <http://azcc.gov/hearing/docket-control-center-filing-requirements>, with the Commission's Docket Control on or before: April 28, 2023.

This matter may be scheduled for Commission deliberation at its Open Meeting scheduled May 2, 2023.

If you have any questions about this matter, please contact Ryan Kern of our Staff at (602) 364-1794, or Elijah Abinah, Director, at (602) 542-6935.

BACKGROUND

On January 31, 2023, Tucson Electric Power Company ("TEP" or "Company") filed its updated calculations and a request for authorization for a Purchased Power and Fuel Adjustment Clause ("PPFAC") rate adjustment in accordance with the PPFAC Plan of Administration ("POA"). The current PPFAC rate, approved in Decision No. 78551, dated April 28, 2022, is

THE COMMISSION

April 18, 2023

Page 2

\$0.008137 per kilowatt-hour ("kWh"). The Company is proposing to set the PPFAC rate at \$0.024502 per kWh for the period of April 1, 2023, through March 31, 2024. TEP's overall PPFAC bank balance is currently estimated to reach about \$148 million in under-collections by March 31, 2023.

The PPFAC rate is comprised of a Forward Component and a True-up Component. The Forward Component consists of the forecasted fuel and purchased power costs for the year in which a given PPFAC rate is in effect, usually commencing on April 1 and ending on March 31 of the following year, less the average base rate of \$0.029053 per kWh approved in Decision No. 77856. The True-up Component is a reconciliation of any over- or under-recovered amounts from the preceding PPFAC year to be credited to, or recovered from, customers in the following PPFAC year.

TEP's application explains that a number of external factors contributed to the magnitude of the Company's PPFAC costs which are sought to be recovered in the current application. The Company notes that continuing cost trends alongside challenges related to power procurement contributed to the roughly \$104 million projected in the Forward Component Tracking Account Balance as of March 31, 2023. TEP estimates that \$55 million of the Balance is attributable to setting the 2022-2023 PPFAC Forward Component rate to zero in Decision No. 78551.

The Company also identifies other factors that affected TEP's fuel and purchased power costs contributing to the \$148 million of under-collected costs. Those factors include:

- Wholesale power and natural gas markets have both experienced average price increases of approximately 300 percent since 2019.
- The prolonged drought within the Desert Southwest have led to historically low water levels in Lakes Powell and Mead, which jeopardizes the hydroelectric generation supported by both. The drought now threatens the availability of 1,300 MW of dispatchable hydro generation at Glen Canyon.
- Delays in coal deliveries, which were faced by many utilities in the U.S. during the second half of 2022 due to rail labor issues, forced TEP to curtail operations of coal-fired power plants and pay higher replacement power costs in order to conserve coal inventories to meet summer peak demand in 2023.
- Widespread supply chain disruptions as well as tariff disputes, mineral commodity price increases, and interconnection queue backlogs created delays in the development and construction of new generation projects that are needed for grid reliability.
- The current bank balance will accrue interest at a rate of 4.7 percent which will add \$3.5 million to next year's PPFAC recovery based on current interest rates; however, this amount is subject to change depending on TEP's actual PPFAC recovery over the next 12 months.

STAFF ANALYSIS AND RECOMMENDATIONS

As of March 31, 2022, TEP had approximately a \$108 million under-collected PPFAC balance. The True-up Component of \$0.008137 per kWh approved in Decision No. 78551 was intended to recover that under-collected balance over 18-months. In this application, TEP has approximately \$44.1 million in under-collections, combined with the estimated Forward Component costs of approximately \$104 million, from April 1, 2022, through March 31, 2023, which results in the current estimation of \$148 million for the total balance to be recovered during the April 1, 2023, through March 31, 2024, PPFAC Annual Rate period.

Description	Amount
Forward Component rate tracking account April 1, 2022-March 31, 2023.	\$103.95 million
Remaining under-collected balance within True-up account at end of 2022-2023 implementation period.	\$44.1 million
Total Under-collection of PPFAC – Shifted Costs	\$148.05 million

Staff estimates that, depending upon the swiftness of the current balance's recovery associated with the scenarios presented in TEP's application, the True Up balance could incur more than \$4.5 million in interest should the recovery of the approximately \$148 million be prolonged.

2023 Purchased Power and Fuel Adjustment Clause Rate Calculation

The current and proposed PPFAC component rates are shown in the table below.

PPFAC Rate Calculation	Current Rate (4/1/22)	Proposed Rate (4/1/23)	Change
Forward Component Rate	\$0.00000	\$0.07490	\$0.07490
True-up Component Rate	\$0.008137	\$0.017012	\$0.008875
PPFAC Rate	\$0.008137	\$0.024502	\$0.016365

According to TEP, the proposed PPFAC rate would increase an average residential bill by approximately \$13.11, or 10.8 percent, beyond the impact of the current PPFAC rate, which is approximately \$6.36, or 5.1 percent. The proposed \$13.11 per month bill impact represents recovery of the current under-collected balance over a 12-month period.

The Company provided Staff with six additional options for the True-up component to help mitigate the bill impact for its customers. These options would provide recovery of the current under-collected balance over 13, 14, 15, 16, 17 and 18 months. Staff also estimated the rates and bill impacts of an additional 24-month recovery scenario. It is important to note that the PPFAC rate and associated bill impact calculations would not address the additional interest that would continue to accrue. The bill impacts, in addition to the current PPFAC rate, PPFAC rate

components, and total true-up collection scenarios for 12 through 24-month, including winter and summer rate scenarios, are summarized in the tables below:

True-Up Balance Recovery Period	Avg. Estimated Residential Monthly Bill Impact
12 Months (POA)	\$13.11
13 Months	\$12.07
14 Months	\$11.17
15 Months	\$10.39
16 Months	\$9.71
17 Months	\$9.11
18 Months	\$8.57
24 Months (Staff Estimate)	\$7.28

Recovery Period	Forward	True-Up	Total 2023 PPFAC Rate
12 Months (POA)	\$0.007490	\$0.017012	\$0.024502
13 Months	\$0.007490	\$0.015703	\$0.023193
14 Months	\$0.007490	\$0.014582	\$0.022072
15 Months	\$0.007490	\$0.013610	\$0.021100
16 Months	\$0.007490	\$0.012759	\$0.020249
17 Months	\$0.007490	\$0.012008	\$0.019498
18 Months	\$0.007490	\$0.011341	\$0.018831
24 Months (Staff Estimate)	\$0.007490	\$0.008506	\$0.015996

PPFAC Total True-Up Collection Scenarios	2023-2024 Estimated Recovery of True Up Balance	Estimated Balance Shifted to 2024
12 Months (POA)	\$148 million	\$0
13 Months	\$137 million	\$11 million
14 Months	\$127 million	\$21 million
15 Months	\$118 million	\$30 million
16 Months	\$111 million	\$37 million
17 Months	\$104 million	\$44 million
18 Months	\$99 million	\$49 million
24 Months (Staff Estimate)	\$74.025 million	\$74.025 million

Staff has reviewed the forecast and calculations provided by the Company and found them to be reasonable. Staff acknowledges the current circumstances regarding persistent wholesale power and natural gas volatility, price shocks and overall price increases regarding fuel inputs and wholesale purchased power, as well as the inflated costs across most consumer goods faced by ratepayers and the Company during recent years following the height of the COVID-19 pandemic.

THE COMMISSION

April 18, 2023

Page 5

Staff also developed scenarios in which the True Up component was differentiated between the summer and winter months. TEP's summer season runs from May through September and its winter season runs from October through April. The resulting rates leveled the impact of the overall PPFAC rate to customers such that the impact to an average residential bill during the summer months is equivalent to the impact to an average residential bill during the winter months. Staff developed the following summer and winter rates to provide the Commission with additional options for the recovery of TEP's under-collected balance. The breakdown of the summer and winter True Up rates across the various scenarios are included in the following table:

True Up Balance Recovery Scenario	Summer True Up Component Rate	Winter True Up Component Rate	Total Summer PPFAC Rate (Including TEP Proposed Fwd Component)	Total Winter PPFAC Rate (Including TEP Proposed Fwd Component)	Monthly Impact to Average Residential Bills
12-Month (POA)	\$0.0096264	\$0.0247379	\$0.0171164	\$0.0322279	\$12.07
13-Month	\$0.0087435	\$0.0230754	\$0.0162335	\$0.0305654	\$11.12
14-Month	\$0.0079401	\$0.0215641	\$0.0154301	\$0.0290541	\$10.26
15-Month	\$0.0072183	\$0.0202038	\$0.0147083	\$0.0276938	\$9.48
16-Month	\$0.0066564	\$0.0191459	\$0.0141464	\$0.0266359	\$8.87
17-Month	\$0.0060946	\$0.0180879	\$0.0135846	\$0.0255779	\$8.27
18-Month	\$0.0056932	\$0.0173322	\$0.0131832	\$0.0248222	\$7.84
24-Month	\$0.0036844	\$0.0135498	\$0.0111744	\$0.0210398	\$5.67

Staff believes that the option to recover over 12 months with summer and winter rates would best serve the public interest while allowing TEP to recover the PPFAC under-collections which have accrued in recent years. Staff's recommended PPFAC rate calculation is shown below:

PPFAC Rate Calculation	Current Rate (4/1/22)	Staff Proposed Rate (4/1/23)		Change	
		Summer	Winter	Summer	Winter
Forward Component Rate	\$0.00000	\$0.007490		\$0.007490	
True-up Component Rate	\$0.008137	\$0.0096264	\$0.0247379	\$0.0014894	\$0.0166009
PPFAC Rate	\$0.008137	\$0.0171164	\$0.0322279	\$0.0089794	\$0.0240909

Staff's proposed PPFAC rate would increase an average residential bill by \$12.07 per month beyond the impact for the current PPFAC rate of \$6.36, for a total impact of \$18.43. For the average residential customer, the proposed PPFAC rate would appear as a \$18.43 surcharge per month (1,077 kWh x \$0.0171164 per kWh during summer months) and (572 kWh x \$0.0322279 per kWh during winter months). These rates would mitigate the rate shock felt by customers during summer months.

THE COMMISSION

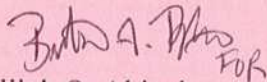
April 18, 2023

Page 6

Staff's proposed summer and winter PPFAC rates are designated to recover the entire estimated \$148 million under-collected balance over the 2023-2024 PPFAC rate implementation period. However, as previously stated, the proposed rates would not address the interest which would continue to accrue during the implementation period.

The PPFAC has a balancing account, which means any over- or under-collected balance has interest applied annually. Any over-collection or under-collection existing at the end of the PPFAC year will be credited/debited an amount based on the one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 on the first business day of the calendar year. The interest rate as of January 1, 2023, was 4.70 percent.

Staff recommends that TEP file in Docket Control a revised Statement of Charges consistent with the Decision in this case within 30 days of the effective date of the Decision.

A handwritten signature in dark ink, appearing to read "Elijah O. Abinah", with the letters "FOR" written in smaller script below the signature.

Elijah O. Abinah
Director
Utilities Division

EOA:RK:jn\SJE

ORIGINATOR: Ryan Kern

THE COMMISSION

April 18, 2023

Page 7

On this 18th day of April, 2023, the foregoing document was filed with Docket Control as a Utilities Division Memorandum & Proposed Order, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

Adam Stafford
Western Resource Advocates
Post Office Box 30497
Phoenix, Arizona 85046
stacy@westernresources.org
adam.stafford@westernresources.org
steve.michel@westernresources.org
Consented to Service by Email

Albert Acken
Dickinson Wright
1850 North Central Avenue
Suite 1400
Phoenix, Arizona 85004
greg.bass@calpinesolutions.com
scott.olson@directenergy.com
aacken@dickinson-wright.com
Mary.Lynch@constellations.com
george.waidelich@albertsons.com
aacken@jsslaw.com
bert@ackenlaw.com
Consented to Service by Email

Alex Dely
8522 East Helen Place
Tucson, Arizona 85715
DelyCIHF@hotmail.com
Consented to Service by Email

Brandon Cheshire
3810 West Cochise Drive
Phoenix, Arizona 85051
brandon@sunharvest.com
Consented to Service by Email

Chanele Reyes
Arizona Center for Law in the Public
Interest
352 East Camelback Road Suite 200
Phoenix, Arizona 85012
chanele@aclpi.org
Consented to Service by Email

Daniel Pozefsky
RUCO
1110 West Washington, Suite 220
Phoenix, Arizona 85007
dpozefsky@azruco.gov
procedural@azruco.gov
rdelafuente@azruco.gov
Consented to Service by Email

Eric Hawkins
Durazzo, Eckel & Hawkins, PLLC
45 North Tucson Boulevard
Tucson, Arizona 85716
kcathers@trico.coop
vnitido@trico.coop
eric@durazzo-eckel.com
ehawkins@trico.coop
Consented to Service by Email

Fred Lomayesva
Hopi Tribe Office Of General Counsel
Post Office Box 123
Kykotsmovi, Arizona 86039
flomayesva@hopi.nsn.us
amignella@hopi.nsn.us
Consented to Service by Email

Kimberly Dutcher
Navajo Nation Department Of Justice
Post Office Box 2010
Window Rock, Arizona 86515
kdutcher@nndoi.org
Consented to Service by Email

Kurt Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street Suite 1510
Cincinnati, Ohio 45202
john@mooreinjurylaw.com
kboehm@bklawfirm.com
Consented to Service by Email

Kyle Smith
United States Department of Defense
9275 Gunston Road
Suite 1300 (JALS-RL/IP)
Fort Belvoir, VA 22060
karen.white.13@us.af.mil
kyle.j.smith124.civ@mail.mil
kyle.j.smith124.civ@army.mil
Consented to Service by Email

Louisa Eberle
2101 Webster Street, Suite 1300
Oakland, California 94612
louisa.eberle@sierraclub.org
miriam.raffel-smith@sierraclub.org
Consented to Service by Email

Marta Darby
633 17th Street, Suite 1600
Denver, Colorado 80202
mdarby@earthjustice.org
Consented to Service by Email

Melissa Krueger
Pinnacle West Capital Corporation
400 North 5th Street, Mail Stop 8695
Phoenix, Arizona 85004
Melissa.Krueger@pinnaclewest.com
Debra.Orr@aps.com
Thomas.Mumaw@pinnaclewest.com
Theresa.Dwyer@pinnaclewest.com
Consented to Service by Email

Michael Hiatt
633 17th Street, Suite 1600
Denver, Colorado 80202
mhiatt@earthjustice.org
Consented to Service by Email

Michael Patten
Snell & Willmer L.L.P.
400 East Van Buren
Phoenix, Arizona 85004
doCKET@swlaw.com
bcarroll@tep.com
ithomes@swlaw.com
mpatten@swlaw.com
mdecorse@tep.com
mderstine@swlaw.com
Consented to Service by Email

Michele Van Quathem
Law Offices Of Michele Van Quathem,
PLLC
7600 North 15th Street, Suite 150
Phoenix, Arizona 85020
mvq@mvqlaw.com
Consented to Service by Email

Nicholas Enoch
Lubin & Enoch, PC
349 North Fourth Avenue
Phoenix, Arizona 85003
nick@lubinandenoch.com
kaitlyn@lubinandenoch.com
corey@lubinandenoch.com
cristina@lubinandenoch.com
Consented to Service by Email

THE COMMISSION

April 18, 2023

Page 8

Patrick Black
Fennemore Craig, P.C.
2394 East Camelback Road Suite 600
Phoenix, Arizona 85016
khiggins@energystat.com
pblack@fclaw.com
lferrigni@fclaw.com

Consented to Service by Email

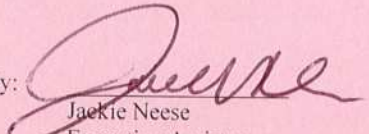
Roi Lusk
The City of Tucson
Post Office Box 27210
Tucson, Arizona 85726
Roi.Lusk@tucsonaz.gov
Jennifer.Stash@tucsonaz.gov
Consented to Service by Email

Stanley Lutz
Lewis Roca Rothgerber Christie, LLP
201 East Washington Street Suite 1200
Phoenix, Arizona 85004
sblutz@lrrc.com
ArizonaEnergyPolicyGroup@gmail.com
Consented to Service by Email

Timothy Hogan
Arizona Center For Law In The Public
Interest
352 East Camelback Road, Suite 200
Phoenix, Arizona 85012
ezuckerman@swenergy.org
thogan@aclpi.org
briana@votesolar.org
schlegelj@aol.com
Nhorseherder@gmail.com
sbatten@aclpi.org
cswick@wildfireaz.org
cmasey@swenergy.org
mark@sanjuancitizens.org
mike@sanjuancitizens.org
carol.davis@dine-care.org
lori.goodman@dine-care.org
robyn.jackson@dine-care.org
brendon@gableassociates.com
Consented to Service by Email

Victoria Buchinger
Pima County Attorney's Office
32 North Stone Suite 2100
Tucson, Arizona 85701-1412
Victoria.Buchinger@pcao.pima.gov
Consented to Service by Email
Robin Mitchell
Director/Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
legaldiv@azcc.gov
utildivservicebyemail@azcc.gov
Consented to Service by Email

By:


Jackie Neese
Executive Assistant

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM O'CONNOR

Chairman

3 LEA MÁRQUEZ PETERSON

Commissioner

4 ANNA TOVAR

Commissioner

5 KEVIN THOMPSON

Commissioner

6 NICK MYERS

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF TUCSON ELECTRIC POWER)
10 COMPANY FOR THE ESTABLISHMENT)
11 OF JUST AND REASONABLE RATES AND)
12 CHARGES DESIGNED TO REALIZE A)
13 REASONABLE RATE OF RETURN ON)
14 THE FAIR VALUE OF THE PROPERTIES)
15 OF TUCSON ELECTRIC POWER)
16 COMPANY DEVOTED TO ITS)
17 OPERATIONS THROUGHOUT THE)
18 STATE OF ARIZONA AND FOR RELATED)
19 APPROVALS.)

DOCKET NO. E-01933A-19-0028

DECISION NO. _____

ORDER

**REQUEST FOR APPROVAL OF
TUCSON ELECTRIC POWER
COMPANY'S PPFAC RATE
ADJUSTMENT**

15 Open Meeting
16 May 2, 2023
17 Phoenix, Arizona

18 BY THE COMMISSION:

FINDINGS OF FACT

20 **Background**

21 1. On January 31, 2023, Tucson Electric Power Company ("TEP" or "Company") filed
22 its updated calculations and a request for authorization for a Purchased Power and Fuel Adjustment
23 Clause ("PPFAC") rate adjustment in accordance with the PPFAC Plan of Administration ("POA").
24 The current PPFAC rate, approved in Decision No. 78551, dated April 28, 2022, is \$0.008137 per
25 kilowatt-hour ("kWh"). The Company is proposing to set the PPFAC rate at \$0.024502 per kWh
26 for the period of April 1, 2023, through March 31, 2024. TEP's overall PPFAC bank balance is
27 currently estimated to reach about \$148 million in under-collections by March 31, 2023.

28 ...

2. The PPFAC rate is comprised of a Forward Component and a True-up Component. The Forward Component consists of the forecasted fuel and purchased power costs for the year in which a given PPFAC rate is in effect, usually commencing on April 1 and ending on March 31 of the following year, less the average base rate of \$0.029053 per kWh approved in Decision No. 77856. The True-up Component is a reconciliation of any over- or under-recovered amounts from the preceding PPFAC year to be credited to, or recovered from, customers in the following PPFAC year.

3. TEP's application explains that a number of external factors contributed to the magnitude of the Company's PPFAC costs which are sought to be recovered in the current application. The Company notes that continuing cost trends alongside challenges related to power procurement contributed to the roughly \$104 million projected in the Forward Component Tracking Account Balance as of March 31, 2023. TEP estimates that \$55 million of the Balance is attributable to setting the 2022-2023 PPFAC Forward Component rate to zero in Decision No. 78551.

4. The Company also identifies other factors that affected TEP's fuel and purchased power costs contributing to the \$148 million of under-collected costs. Those factors include:

- Wholesale power and natural gas markets have both experienced average price increases of approximately 300 percent since 2019.
- The prolonged drought within the Desert Southwest have led to historically low water levels in Lakes Powell and Mead, which jeopardizes the hydroelectric generation supported by both. The drought now threatens the availability of 1,300 MW of dispatchable hydro generation at Glen Canyon.
- Delays in coal deliveries, which were faced by many utilities in the U.S. during the second half of 2022 due to rail labor issues, forced TEP to curtail operations of coal-fired power plants and pay higher replacement power costs in order to conserve coal inventories to meet summer peak demand in 2023.
- Widespread supply chain disruptions as well as tariff disputes, mineral commodity price increases, and interconnection queue backlogs created delays in the

development and construction of new generation projects that are needed for grid reliability.

- The current bank balance will accrue interest at a rate of 4.7 percent which will add \$3.5 million to next year's PPFAC recovery based on current interest rates; however, this amount is subject to change depending on TEP's actual PPFAC recovery over the next 12 months.

Staff Analysis and Recommendations

5. As of March 31, 2022, TEP had approximately a \$108 million under-collected PPFAC balance. The True-up Component of \$0.008137 per kWh approved in Decision No. 78551 was intended to recover that under-collected balance over 18-months. In this application, TEP has approximately \$44.1 million in under-collections, combined with the estimated Forward Component costs of approximately \$104 million, from April 1, 2022, through March 31, 2023, which results in the current estimation of \$148 million for the total balance to be recovered during the April 1, 2023, through March 31, 2024, PPFAC Annual Rate period.

Description	Amount
Forward Component rate tracking account April 1, 2022-March 31, 2023.	\$103.95 million
Remaining under-collected balance within True-up account at end of 2022-2023 implementation period.	\$44.1 million
Total Under-collection of PPFAC – Shifted Costs	\$148.05 million

6. Staff estimates that, depending upon the swiftness of the current balance's recovery associated with the scenarios presented in TEP's application, the True Up balance could incur more than \$4.5 million in interest should the recovery of the approximately \$148 million be prolonged.

2023 Purchased Power and Fuel Adjustment Clause Rate Calculation

7. The current and proposed PPFAC component rates are shown in the table below.

PPFAC Rate Calculation	Current Rate (4/1/22)	Proposed Rate (4/1/23)	Change
Forward Component Rate	\$0.00000	\$0.07490	\$0.07490
True-up Component Rate	\$0.008137	\$0.017012	\$0.008875
PPFAC Rate	\$0.008137	\$0.024502	\$0.016365

8. According to TEP, the proposed PPFAC rate would increase an average residential bill by approximately \$13.11, or 10.8 percent, beyond the impact of the current PPFAC rate, which is approximately \$6.36, or 5.1 percent. The proposed \$13.11 per month bill impact represents recovery of the current under-collected balance over a 12-month period.

9. The Company provided Staff with six additional options for the True-up component to help mitigate the bill impact for its customers. These options would provide recovery of the current under-collected balance over 13, 14, 15, 16, 17 and 18 months. Staff also estimated the rates and bill impacts of an additional 24-month recovery scenario. It is important to note that the PPFAC rate and associated bill impact calculations would not address the additional interest that would continue to accrue. The bill impacts, in addition to the current PPFAC rate, PPFAC rate components, and total true-up collection scenarios for 12 through 24-month, including winter and summer rate scenarios, are summarized in the tables below:

True-Up Balance Recovery Period	Avg. Estimated Residential Monthly Bill Impact
12 Months (POA)	\$13.11
13 Months	\$12.07
14 Months	\$11.17
15 Months	\$10.39
16 Months	\$9.71
17 Months	\$9.11
18 Months	\$8.57
24 Months (Staff Estimate)	\$7.28

Recovery Period	Forward	True-Up	Total 2023 PPFAC Rate
12 Months (POA)	\$0.007490	\$0.017012	\$0.024502
13 Months	\$0.007490	\$0.015703	\$0.023193
14 Months	\$0.007490	\$0.014582	\$0.022072
15 Months	\$0.007490	\$0.013610	\$0.021100
16 Months	\$0.007490	\$0.012759	\$0.020249
17 Months	\$0.007490	\$0.012008	\$0.019498
18 Months	\$0.007490	\$0.011341	\$0.018831
24 Months (Staff Estimate)	\$0.007490	\$0.008506	\$0.015996

PPFAC Total True-Up Collection Scenarios	2023-2024 Estimated Recovery of True Up Balance	Estimated Balance Shifted to 2024
12 Months (POA)	\$148 million	\$0
13 Months	\$137 million	\$11 million
14 Months	\$127 million	\$21 million
15 Months	\$118 million	\$30 million
16 Months	\$111 million	\$37 million
17 Months	\$104 million	\$44 million
18 Months	\$99 million	\$49 million
24 Months (Staff Estimate)	\$74.025 million	\$74.025 million

10. Staff has reviewed the forecast and calculations provided by the Company and found them to be reasonable. Staff acknowledges the current circumstances regarding persistent wholesale power and natural gas volatility, price shocks and overall price increases regarding fuel inputs and wholesale purchased power, as well as the inflated costs across most consumer goods faced by ratepayers and the Company during recent years following the height of the COVID-19 pandemic.

11. Staff also developed scenarios in which the True Up component was differentiated between the summer and winter months. TEP's summer season runs from May through September and its winter season runs from October through April. The resulting rates leveled the impact of the overall PPFAC rate to customers such that the impact to an average residential bill during the summer months is equivalent to the impact to an average residential bill during the winter months. Staff developed the following summer and winter rates to provide the Commission with additional options for the recovery of TEP's under-collected balance. The breakdown of the summer and winter True Up rates across the various scenarios are included in the following table:

True Up Balance Recovery Scenario	Summer True Up Component Rate	Winter True Up Component Rate	Total Summer PPFAC Rate (Including TEP Proposed Fwd Component)	Total Winter PPFAC Rate (Including TEP Proposed Fwd Component)	Monthly Impact to Average Residential Bills
12-Month (POA)	\$0.0096264	\$0.0247379	\$0.0171164	\$0.0322279	\$12.07
13-Month	\$0.0087435	\$0.0230754	\$0.0162335	\$0.0305654	\$11.12
14-Month	\$0.0079401	\$0.0215641	\$0.0154301	\$0.0290541	\$10.26
15-Month	\$0.0072183	\$0.0202038	\$0.0147083	\$0.0276938	\$9.48
16-Month	\$0.0066564	\$0.0191459	\$0.0141464	\$0.0266359	\$8.87
17-Month	\$0.0060946	\$0.0180879	\$0.0135846	\$0.0255779	\$8.27
18-Month	\$0.0056932	\$0.0173322	\$0.0131832	\$0.0248222	\$7.84
24-Month	\$0.0036844	\$0.0135498	\$0.0111744	\$0.0210398	\$5.67

12. Staff believes that the option to recover over 12 months with summer and winter rates would best serve the public interest while allowing TEP to recover the PPFAC under-collections which have accrued in recent years. Staff's recommended PPFAC rate calculation is shown below:

PPFAC Rate Calculation	Current Rate (4/1/22)	Staff Proposed Rate (4/1/23)		Change	
		Summer	Winter	Summer	Winter
Forward Component Rate	\$0.00000	\$0.007490		\$0.007490	
True-up Component Rate	\$0.008137	\$0.0096264	\$0.0247379	\$0.0014894	\$0.0166009
PPFAC Rate	\$0.008137	\$0.0171164	\$0.0322279	\$0.0089794	\$0.0240909

13. Staff's proposed PPFAC rate would increase an average residential bill by \$12.07 per month beyond the impact for the current PPFAC rate of \$6.36, for a total impact of \$18.43. For the average residential customer, the proposed PPFAC rate would appear as a \$18.43 surcharge per month (1,077 kWh x \$0.0171164 per kWh during summer months) and (572 kWh x \$0.0322279 per kWh during winter months). These rates would mitigate the rate shock felt by customers during summer months.

14. Staff's proposed summer and winter PPFAC rates are designated to recover the entire estimated \$148 million under-collected balance over the 2023-2024 PPFAC rate implementation period. However, as previously stated, the proposed rates would not address the interest which would continue to accrue during the implementation period.

15. The PPFAC has a balancing account, which means any over- or under-collected balance has interest applied annually. Any over-collection or under-collection existing at the end of the PPFAC year will be credited/debited an amount based on the one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 on the first business day of the calendar year. The interest rate as of January 1, 2023, was 4.70 percent.

16. Staff recommends that TEP file in Docket Control a revised Statement of Charges consistent with the Decision in this case within 30 days of the effective date of the Decision.

CONCLUSIONS OF LAW

1. Tucson Electric Power Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Tucson Electric Power Company and the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum, concludes that it is in the public interest to reset the Purchased Power and Fuel Adjustment Clause rate as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the change in the Purchased Power and Fuel Adjustment Clause rate to \$0.0171164 per kWh during the summer months May through September, and \$0.0322279 per kWh during the winter months October through April, is hereby approved.

IT IS FURTHER ORDERED that the new Purchased Power and Fuel Adjustment Clause rate shall go into effect the first billing cycle after the effective date of this Decision.

• • •

• • •

• • •

...

...

1 IT IS FURTHER ORDERED that Tucson Electric Power Company file in Docket Control a
2 revised Statement of Charges consistent with the Decision in this case within 30 days of the effective
3 date of the Decision.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.
5

6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**
7

8
9 CHAIRMAN O'CONNOR

COMMISSIONER MÁRQUEZ PETERSON

10
11 COMMISSIONER TOVAR COMMISSIONER THOMPSON COMMISSIONER MYERS
12

13 IN WITNESS WHEREOF, I, DOUGLAS R. CLARK,
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of this
16 Commission to be affixed at the Capitol, in the City of
17 Phoenix, this _____ day of _____, 2023.

18 _____
19 DOUGLAS R. CLARK
EXECUTIVE DIRECTOR

20 DISSENT: _____
21

22 DISSENT: _____
23

24 EOA:RK:jn/SJE
25
26
27
28

Tucson Electric Power Company
Docket No. E-01933A-19-0028

Adam Stafford
Western Resource Advocates
Post Office Box 30497
Phoenix, Arizona 85046
stacy@westernresources.org
adam.stafford@westernresources.org
steve.michel@westernresources.org
Consented to Service by Email

Albert Acken
Dickinson Wright
1850 North Central Avenue
Suite 1400
Phoenix, Arizona 85004
greg.bass@calpinesolutions.com
scott.olson@directenergy.com
aacken@dickinson-wright.com
Mary.lynch@constellations.com
george.waidelich@albertsons.com
aacken@jsslaw.com
bert@ackenlaw.com
Consented to Service by Email

Alex Dely
8522 East Helen Place
Tucson, Arizona 85715
DelyCIHF@hotmail.com
Consented to Service by Email

Brandon Cheshire
3810 West Cochise Drive
Phoenix, Arizona 85051
brandon@sunharvest.com
Consented to Service by Email

Chanele Reyes
Arizona Center for Law in the Public
Interest
352 East Camelback Road Suite 200
Phoenix, Arizona 85012
chanele@aclpi.org
Consented to Service by Email

Daniel Pozefsky
RUCO
1110 West Washington, Suite 220
Phoenix, Arizona 85007
dpozufsky@azruco.gov
procedural@azruco.gov
rdelafuente@azruco.gov
Consented to Service by Email

Eric Hawkins
Durazzo, Eckel & Hawkins, PLLC
45 North Tucson Boulevard
Tucson, Arizona 85716
kcathers@trico.coop
vnitido@trico.coop
eric@durazzo-eckel.com
ehawkins@trico.coop
Consented to Service by Email

Fred Lomayesva
Hopi Tribe Office Of General
Counsel
Post Office Box 123
Kykotsmovi, Arizona 86039
flomayesva@hopi.nsn.us
amignella@hopi.nsn.us
Consented to Service by Email

Kimberly Dutcher
Navajo Nation Department Of Justice
Post Office Box 2010
Window Rock, Arizona 86515
kdutcher@nndoj.org
Consented to Service by Email

Kurt Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street Suite 1510
Cincinnati, Ohio 45202
john@mooreinjurylaw.com
kboehm@bkllawfirm.com
Consented to Service by Email

Kyle Smith
United States Department of Defense
9275 Gunston Road
Suite 1300 (JALS-RL/IP)
Fort Belvoir, VA 22060
karen.white.13@us.af.mil
kyle.j.smith124.civ@mail.mil
kyle.j.smith124.civ@army.mil
Consented to Service by Email

Louisa Eberle
2101 Webster Street, Suite 1300
Oakland, California 94612
louisa.eberle@sierraclub.org
miriam.raffel-smith@sierraclub.org
Consented to Service by Email

Marta Darby
633 17th Street, Suite 1600
Denver, Colorado 80202
mdarby@earthjustice.org
Consented to Service by Email

Melissa Krueger
Pinnacle West Capital Corporation
400 North 5th Street, Mail Stop 8695
Phoenix, Arizona 85004
Melissa.Krueger@pinnaclewest.com
Debra.Orr@aps.com
Thomas.Mumaw@pinnaclewest.com
Theresa.Dwyer@pinnaclewest.com
Consented to Service by Email

Michael Hiatt
633 17th Street, Suite 1600
Denver, Colorado 80202
mhiatt@earthjustice.org
Consented to Service by Email

Michael Patten
Snell & Willmer L.L.P.
400 East Van Buren
Phoenix, Arizona 85004
docket@swlaw.com
bcarroll@tep.com
jthomes@swlaw.com
mpatten@swlaw.com
mdecorse@tep.com
mderstine@swlaw.com
Consented to Service by Email

Michele Van Quathem
Law Offices Of Michele Van
Quathem, PLLC
7600 North 15th Street, Suite 150
Phoenix, Arizona 85020
mvq@mvqlaw.com
Consented to Service by Email

Nicholas Enoch
Lubin & Enoch, PC
349 North Fourth Avenue
Phoenix, Arizona 85003
nick@lubinandenoch.com
kaitlyn@lubinandenoch.com
corey@lubinandenoch.com
cristina@lubinandenoch.com
Consented to Service by Email

Patrick Black
Fennemore Craig, P.C.
2394 East Camelback Road Suite 600
Phoenix, Arizona 85016

khiggins@energystrat.com

pblack@fclaw.com

lferrigni@fclaw.com

Consented to Service by Email

Roi Lusk
The City of Tucson
Post Office Box 27210
Tucson, Arizona 85726

Roi.Lusk@tucsonaz.gov

Jennifer.Stash@tucsonaz.gov

Consented to Service by Email

Stanley Lutz
Lewis Roca Rothgerber Christie, LLP
201 East Washington Street Suite
1200

Phoenix, Arizona 85004

sblutz@lrrc.com

ArizonaEnergyPolicyGroup@gmail.com

Consented to Service by Email

Timothy Hogan
Arizona Center For Law In The
Public Interest
352 East Camelback Road, Suite 200
Phoenix, Arizona 85012

ezuckerman@swenergy.org

thogan@aclpi.org

briana@votesolar.org

schlegelj@aol.com

Nhorseherder@gmail.com

sbatten@aclpi.org

czwick@wildfireaz.org

cmasey@swenergy.org

mark@sanjuancitizens.org

mike@sanjuancitizens.org

carol.davis@dine-care.org

lori.goodman@dine-care.org

robyn.jackson@dine-care.org

brendon@gableassociates.com

Consented to Service by Email

Victoria Buchinger
Pima County Attorney's Office
32 North Stone Suite 2100
Tucson, Arizona 85701-1412

Victoria.Buchinger@pcao.pima.gov

Consented to Service by Email

Robin Mitchell
Director/Chief Counsel, Legal
Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

legaldiv@azcc.gov

utildivservicebyemail@azcc.gov

Consented to Service by Email